

Message Text

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70

ACTION EUR-12

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SUBJECT: MAJOR PROJECT: POST-MORTEM ON DEMISE OF CHANNEL
TUNNEL PROJECT

REF: LONDON'S 836 & 894

BEGIN UNCLASSIFIED

1. REFTELS CONTAIN BASIC INFORMATION ON CANCELLATION OF
CHANNEL TUNNEL PROJECT. CURRENT, GLOOMY ECONOMIC PICTURE
IN /UNITED KINGDOM LARGELY TO BLAME FOR MOVE.

2. ACCORDING TO "THE TIMES" JAN. 21, ANTHONY CROSLAND,
SECSTATE FOR ENVIRONMENT, GAVE FOLLOWING OFFICIAL EX-
PLANATION FOR CANCELLATION: DUE TO 1974 ELECTIONS HMG
UNABLE MEET DEADLINE FOR TREATY RATIFICATION. HMG PRO-
POSED TO FRENCH AND TUNNEL COMPANIES THAT TIMETABLE BE
OUT BACK TO ENABLE EXAMINATION ALTERNATIVE LOWER-COST
RAIL OPTIONS, POSTPONING FINAL DECISION TO SUMMER 1976.
HMG ALSO ASKED PARTNERS TO GIVE LATITUDE OVER RATIFI-
CATION. COMOANIES REJECTED OROPOSAL. FELT OBLIGED, IN
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INTERESTS OF SHAREHOLDERS TO CLAIM THAT GOVERNMENTS HAD

ABANDONED PROJECT. PROPOSALS WERE PUT FORWARD BY THE COMPANIES ON JANUARY 9, 1975 FOR CONTINUING PROJECT WHICH HMG DID NOT VIEW AS PROVIDING A REASONABLE BASIS FOR NEGOTIATION AND SHORTLY THEREAFTER HMG INFORMED FRENCH GOVERNMENT NO ALTERNATIVE TO ACCEPTING COMPANIES' CLAIM OF ABANDONMENT.

CROSLAND EXPLAINED THE COMPANIES ARE NOT TO BLAME FOR THIS STATE OF AFFAIRS. ACCORDING HMG FINANCIAL RESPONSIBILITY FOR HALF CHARGES RISING FROM THE CANCELLATION WOULD BE BORNE BY FRENCH GOVERNMENT, PER THE AGREEMENT. LEGAL ADVICE WAS THAT AGREEMENTS ARE WATERTIGHT.

3. A. /U..K. PRESS COMMENTS IN SUPPORT OF HMG'S DECISION CENTERED AROUND IDEA THAT ASSUMPTIONS UPON WHICH PROJECT BASED OVERTAKEN BY WORLD AND U.K. ECONOMIC EVENTS; HIGH INFLATION AND INTEREST RATES AS WELL AS FRANC-STERLING RELATIONSHIP WHICH WORSENERED TO U.K. DISADVANTAGE DURING PERIOD FOLLOWING INITIAL DECISION ON CHUNNEL.

B. PRESS COMMENTS OPPOSING DECISION CITED LONG RANGE BENEFITS FOREGONE, I.E. CHUNNEL WOULD HAVE OFFERED CHEAPEST WAY IN OVERALL RESOURCE COST TERMS OF PROVIDING ADDITIONAL CAPACITY THAT RATE OF GROWTH IN CROSS-CHANNEL TRAFFIC SEEMED TO CALL FOR. THE PROJECT WOULD HAVE HAD LESS NEGATIVE IMPACT UPON THE ENVIRONMENT AND CONSERVED MORE ENERGY THAN ANY OF NOW NECESSARY ALTERNATIVES. INFLATION HAS AFFECTED EVERYTHING AND, THEREFORE, ALONG WITH SPIRALLING COSTS ONE COULD EXPECT SPIRALLING REVENUES, ETC. END UNCLASSIFIED. BEGIN LOU.

4. SEVERAL KEY FIGURES AND SOME EDITORIAL COMMENT CLAIMED THAT THE "REAL REASON" FOR THE CANCELLATION HAD NOT BEEN GIVEN. PRESS HAD LITTLE ANALYSIS OF POSSIBLE FINANCING DIFFICULTIES, BUT TWO SEPARATE SOURCES HAVE NOTED PRIVATELY THAT THERE IS, AT LEAST THEORETICALLY, A GROSS DEBT LIABILITY LIMIT (INCLUDING GUARANTEED LOANS AS IN TUNNEL CASE) FOR THE U.K. IN PAST SEVERAL MONTHS ABILITY TO RAISE MONEY BASED ON WORTH TO LIABILITY RATIO OF /U..K. AS AN ENTITY (AND ON ASSUMPTIONS ABOUT U.K.'S ABILITY TO MEET OBLIGATIONS) HAS COME INTO QUESTION. SERIOUS PROBLEMS COULD FACE /U.K. IF IT TRIED TO GO AHEAD. LIMITED OFFICIAL USE

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SHOULD THE HIGHLY RESPECTED CONSORTIUM OF BANKS ASSEMBLED FOR PROJECT BE ABLE TO GATHER IN THE NEXT FEW YEARS NEARLY ONE BILLION POUNDS NEEDED (LARGELY FROM ABROAD), THIS WOULD SEVERELY CUT THE ABILITY OF OTHER U.K. ENTITIES TO BORROW IN FOREIGN MARKETS. IT WAS CONSIDERED MORE LIKELY THAT IT WOULD NOT BE POSSIBLE TO BORROW SUFFICIENTLY FOR PROJECT. THIS WOULD HAVE PUT PROJECT IN DEFAULT AT MUCH GREATER COST (POLITICALLY AS WELL AS ECONOMICALLY)

TO HMG.
END LOU.
SPIERS

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